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PoP Shoppes
International Inc.

Annual Report
1976

The PoP Shoppes

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The Annual General Meeting of Share-
holders will be held in the Hyatt Regency
Toronto Hotel, May 24th, 1977 at 4:00 p.m.

Financial Highlights

	1976	1975	Change
		\$,000	%
Systemwide Sales	30,353	24,148	26
Revenues	17,071	13,908	23
Net Earnings	3,537	1,420	149
Shareholders' Equity	13,562	10,368	31
Earnings Per Share			
Basic	.79	.37	113
Fully Diluted	.75	.36	108
Number of Shares Outstanding*			
Basic	4,303	3,524	22
Fully Diluted	4,773	3,700	29
Factory Locations	50	33	51

*See Note 15 in Consolidated Financial Statements

The Presidents Remarks

This Annual Report establishes 1976 as the most successful and significant year in the phenomenal growth of PoP Shoppes International.

At the end of the year our net operating earnings were \$1,882,715, an increase over 1975 of 42% with systemwide sales reaching a record \$30 million. The sale of a 20% interest in PoP Shoppes of America to Imasco Limited of Montreal and other unusual items produced additional earnings of \$1,653,788, which represents \$.39 per share. These combined earnings saw our earnings per share climb from \$.34 for the year ended 1975 to \$.79 for the year ended 1976.

The growth in operating earnings was achieved in spite of an unusually cold summer in Canada and severe price-cutting by the major soft drink manufacturers in most markets. This growth was due to the substantial increase in earnings generated from PoP Shoppes of America.

The most important event of the year was the purchase by Imasco of 20% of the common and preferred shares of PoP Shoppes of America, Inc. for \$3,200,000 plus an agreement to lend PoP Shoppes of America \$7 million over a 12 month period to accelerate expansion and help increase our penetration of the 7½ billion dollar soft drink industry.

Imasco also has the right to acquire a further 30% of the shares of PoP Shoppes of America for \$7,300,000 during the next two years.

This financial arrangement is an outstanding vote of confidence for our Company's concept and management.

Imasco Limited, a Canadian Company founded in 1912 and headquartered in Montreal, is consumer-oriented and consists of three divisions: tobacco, food and retailing.

Combined sales last year were \$941 million and net income was \$36.5 million.

Imasco owns Canada's largest tobacco company, Imperial Tobacco Limited. Food operations include Grissol Foods, Montreal, and Unico Foods, Toronto. Specialized retailing operations are carried out by United Cigar Stores with 360 outlets, Top Drug Mart with 67 stores and Arlington/Collegiate's 16 sporting goods stores.

In the United States, Imasco owns S and W Fine Foods in California, Progresso Foods of New Jersey and The Tinder Box International, 110 franchised tobacco shops in the South West.

Imasco recently made a major investment in Hardee's Charbroil Burgers of Rocky Mount, N.C.

Needless to say, our partnership with Imasco has very real benefits for shareholders of PSI. As well as giving us the advantage of their expertise in the operation of retail outlets, it will allow us greater expansion sooner, and will help to maintain our 2-year lead over competition.

Expansion and Growth

Our schedule of new factory openings in 1976 culminated with the opening of our 50th factory location in Toronto, Canada. During the year we successfully opened 17 new factory locations (11 in the U.S. and 6 in Canada) which represented an expansion rate of more than 50%.

The new factory locations opened last year in the United States included Alameda, Contra Costa and San Diego in California; Dallas and Austin, Texas; Hartford and New Haven, Connecticut; Buffalo, New York; Duluth, Minnesota; Portsmouth, New Hampshire; and Wichita, Kansas.

We also had Canadian openings in Toronto, Newmarket and Kingston, Ontario; Montreal and Quebec City, Quebec; and Sydney, Nova Scotia.

The increase in our earnings for 1976, combined with the Imasco agreement, resulted in PSI's first common share dividend.

On November 30th last year we announced a special dividend of 5¢ per common share payable December 31, 1976 and also announced our plans to pay a semi-annual dividend of 2½¢ per common share each June and December beginning in 1977.

I am pleased to announce that we now have in excess of 1,400 shareholders. About 400,000 shares or 30% of the shares in the hands of the public are owned by U.S. shareholders.

The Company's shares are presently listed on the Toronto and Montreal Stock Exchanges and we are considering making application for a U.S. listing of our shares in 1977.

Our other plans for 1977 include the opening of fifteen new factory outlets in the United States. It will mean that, for the first time, U.S. concentrate and case sales will exceed those of Canada.

Looking ahead even further, we are forecasting an additional 20 factory outlets being opened in the United States in 1978.

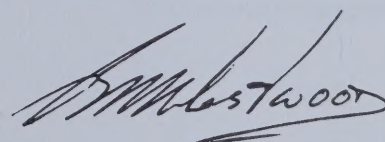
At the present time we are also investigating serious inquiries about introducing The PoP Shoppe concept to the Western European and Australian markets.

People

Michael D. Young resigned as President of PoP Shoppes of America and as a Director of PoP Shoppes International. Mr. Young has acquired a major interest in our Texas licensee operation and has moved to Dallas.

J. Gary Shaw assumed the position of President of PoP Shoppes of America following Mr. Young's resignation, and V. Edward Daughney C.A., President of Great Northern Financial Corporation, will fill the vacant seat on the PoP Shoppes International Inc. Board of Directors.

The success of The PoP Shoppe concept is largely a result of the great dedication, spirit and drive of all the people who work in our offices, factories and retail stores. It takes good people to make a good idea a reality. I think we have some of the best people in our industry. That's why page 7 of this Annual Report features a well-deserved tribute to The PoP Shoppe team.



BRUCE M. WESTWOOD
President.

The Idea

The idea was born eight years ago at a small bottling plant in Canada. The exciting, yet simple concept was to cut the retail price of soft drinks in half by eliminating the biggest single expense: Distribution.

It was, in fact, a whole new way of conducting one of the world's largest industries.

In the conventional system, soft drinks are packaged and then delivered to supermarkets and variety stores over a wide area. It is not unusual for two men on a truck to spend a whole day delivering 450 cases of pop. (The average PoP Shoppe sells that much in a couple of hours.)

It is easy to imagine the savings when the consumer picks up the pop by the case directly from a factory outlet or satellite store and takes it home.

The Birth

The first PoP Shoppe opened in London, Ontario, Canada in 1969 with the bottling works in back and the store in front.

It was not only an instant success, but a lasting success, because the creators of the Idea knew there was more to selling soft drinks than just low price.

There was the quality of the product itself, the choice of containers, the merchandising, the advertising and the premises.

The Product

To assure the constant quality of its product in every outlet, PoP Shoppes acquired Kist Canada, Limited, a company that for forty years enjoyed a solid reputation for excellence in the soft drink flavour industry.

In the United States all our concentrates are manufactured under license by Heritage Flavor Corp., a subsidiary of PoP Shoppes of America, Inc.



Both these companies use only premium-quality ingredients and their products are continually inspected by our quality control laboratories. In addition, we are installing mini-labs in our factory operations to do on-premise inspection including microbiological testing. All of this to guarantee consistent taste and unvarying flavour.

And our products do taste good.

In a national beverage survey taken by Chatelaine, Canada's leading women's magazine, the results showed that The PoP Shoppe leads all orange, grapefruit, grape, root beer and cream soda taste tests; were second in lemon-lime, soda

water, lemon and ginger ale (both diet and regular); and third in diet and regular cola, diet lemon-lime, tonic water and collins mix.

The Containers

The PoP Shoppe container is one of the most important keys to the success of the Company.

The original idea to use returnable glass bottles was made for business reasons. If the customer had to pay the highest deposit in the industry (\$3.00 per case in Canada and as high as \$4.00 in certain



states) it would be an incentive to bring back the empties and make another purchase.

Later it became clear that it was a welcome idea to a country that was finding itself ankle-deep in old pop cans and broken glass from non-returnable bottles. (Ecology and energy conservation are ideas that are going to be with us a long time.)

Some states and provinces have already banned non-returnable containers, and many others are moving in that direction.



PoP Shoppes International has received a number of community awards and statements of recognition for their contribution in the area of energy conservation and environmental concern.

Every week the attractive, bright red PoP Shoppe case is seen in more and more homes. But finding a PoP Shoppe bottle on the roadside or in the park is a rare event. Our last survey showed that 98% of our bottles come back.

That is by far the highest return in the industry.

Advertising

Getting consumers to come to "North America's Soft Drink Supermarket" for the first time requires a great deal of very effective advertising. And this year, to make sure our message gets across, our total system wide advertising expenditure will be more than \$3½ million.



This money will be spent on television, radio, and large newspaper advertisements, and it will be spent wisely with powerful creative work.

Our major slogan will be, "When soft drinks are all you make, you'd better make them good", with copy that puts special emphasis on quality and price.

A sample headline reads, "How good is a cola that costs 10¢ a bottle?". It's an intriguing and eye-catching question, especially in this day of the 20¢ phone call, the 20¢ candy bar, and national brands of soft drinks that sell for twice our 10¢ price.



Our other slogan, "Nickel PoP is back!", which has served us so well over the years, is still used for openings and special events.

And our openings really are special events. The whole PoP Shoppe team is there to help get the new outlet started with a bang. As well as free balloons and other gifts, we treat the children to a visit with Disney and Sesame Street characters.

The Premises

Every PoP Shoppe outlet is attractive and inviting. The design and decor reflect the quality of the product and the stock is arranged 'supermarket style' for the customers' convenience.

After returning the case of empty bottles to The PoP Shoppe, the customer pushes a cart with an empty case down the aisles and selects twenty-four 300 millilitre bottles or twelve family-sized bottles. On

a self-serve basis he may mix or match 16 regular flavours, 10 sugar-free flavours, and in Canada, 6 calorie reduced flavours.

At every step of the way the staff is there to assist in the purchase and to make the visit as enjoyable as possible.

We have proven that the result is increased sales for The PoP Shoppe and increased profits for our shareholders.

The Future

PoP Shoppes International has no plans to change our method of operation. The idea is simple, it works, and the company is still two years ahead of competition.

All that's left now is expansion.

The People



It is obvious to all of us who have been closely associated with PoP Shoppes since its inception, that the concept is a great one. From a marketing viewpoint, the timing was perfect. The quality of the product has remained consistently top-notch.

But those elements alone do not make a successful company. It has taken a great deal of hard work on the part of a lot of dedicated people to make the idea a practical and profitable reality.

It has taken the faith and courage of our licensees across Canada and the United States who have recognized the concept for what it is and invested their time and money in making each factory a success.

It has taken the seemingly tireless effort of hundreds of plant workers, mechanical specialists, store managers and employees



in the retail outlets who have taken even the biggest problems and turned them into opportunities.

It has taken the common spirit and drive of those who staff our Canadian, American and International head offices who have burned barrels of midnight oil to develop effective marketing, sales, advertising and administrative programmes to support the people working in the field.

And it has taken the unflinching loyalty and total dedication of an eager young executive team who have agonized long and hard over the direction our Company would take.



Without exception, they have all made contributions far and above the normal call of duty.

And, to mark the close of our most successful year to date, we take this opportunity to honour and thank them. With their continued support and the support of more like them, the greatness of The PoP Shoppe idea will be fully developed.

Treasurer's Report

Statement of Earnings

Revenues increased \$3,163,000 or 23% from \$13,908,000 for the year ended December 31, 1975 to \$17,071,000 for the year ended December 31, 1976.

This results primarily from an increase in the sale of concentrate to our licensees and from licensing revenues which reflect not only the increasing number of licensees but also the increasing unit sales of individual licensee operations.

Soft drink sales from company-owned plants reflected a modest increase which is due primarily to the cold weather experienced in Canada during the summer of 1976 and the effect of severe price cutting by our major competitors in certain Canadian markets during the year.

Earnings

Net earnings for 1976 were a record \$3,536,503 which is up \$2,116,159 over 1975 figures of \$1,420,344. This represents an increase in earnings of 149% for the year.

It should however be noted that the gain of \$1,711,633 on the sale to Imasco of 20% of the equity of PoP Shoppes of America, Inc. contributed \$.39 per share earnings to our results.

Operating earnings after taxes, minority interests and dividends to preference shareholders thus amounted to \$.40 per share as compared to an equivalent amount of \$.34 per share for the previous year, for an 18% increase.

The combination of the above two items gives us total net earnings per share of \$.79 as compared to \$.34 per share for the previous year for an increase of \$.45 per share.

The weighted average number of common shares outstanding during the year increased by 779,081 shares or 22% from 3,523,823 in 1975 to 4,302,904 in 1976.

We are pleased to note that the profit margin from operations as a percentage of sales for the year ended December 31, 1976 was 11.0% as compared to 9.5% for 1975.



Balance Sheet

Total assets are now \$32,146,369, up from \$22,385,101 the previous year, for an increase of \$9,761,268 or 44%.

The main increase in assets was in the areas of cash, accounts receivable and investments and advances to licensee companies. This is as a result of our expansion activity in the United States, and our continued policy of consolidation of our Canadian operations.

The Company's working capital increased \$4,898,000 to \$6,380,000 as at December 31, 1976 up from \$1,482,000 the previous year.

In addition we increased our total investment in licensees to \$2,794,000 from \$943,000 in 1975. This has allowed these operations to proceed with their market expansion on schedule.

During the year we spent approximately \$1,200,000 acquiring new bottling equipment and \$400,000 for containers for our company-owned operations.

The Company's cash position at December 31, 1976 is extremely strong with almost \$6,000,000 in cash and short-term deposits. This will allow the Company to proceed with its 1977 capital expenditure programme of \$5,900,000.

Shareholders' Equity

Shareholders' equity is now a record \$13,561,655 which represents an increase of 31% over the \$10,367,646 figure for December 31, 1975. Only four years ago, that is, for the year ended January 31, 1973, our shareholders' equity was \$97,000.

Dividends

This year your Company paid out \$341,000 in dividends, \$126,000 to the holders of our 8½% Preference Shares and a common share dividend of \$.05 per share (total \$215,000). This was the first time that a dividend has been paid to our common shareholders.

This reflects the fact that the Directors felt your Company has now reached a level of maturity and stability that enables us to pay dividends to the common shareholders.

ALLAN R. BIGGS,
Vice-President, Finance
and Treasurer.

Ownership by P.S.I. in Licensees and Other Subsidiaries



Notes

1. Each licensee has one factory store in each of the above-named cities except in Toronto and Edmonton where three and two factory stores are in operation, respectively. Each licensee also operates a number of satellite stores and sells to wholesale accounts throughout its licensed territory.

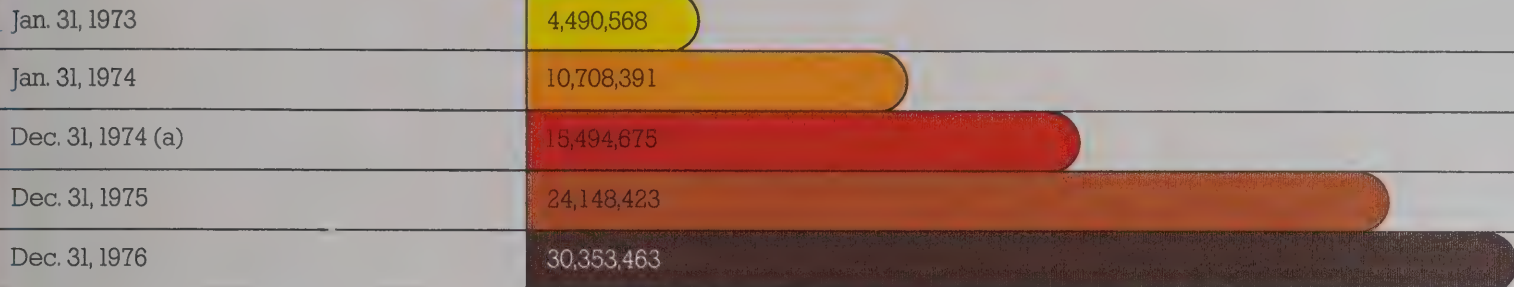
2. Information as at December 31, 1976.

Factory Locations

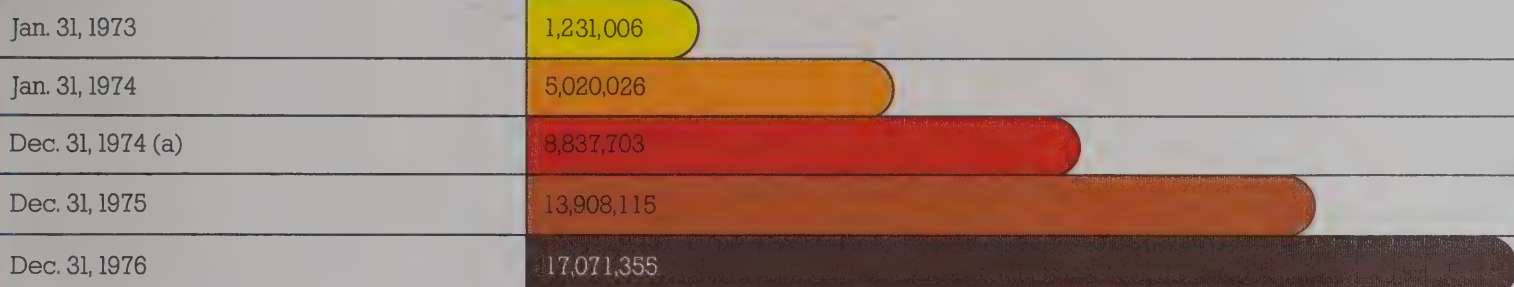


Growth

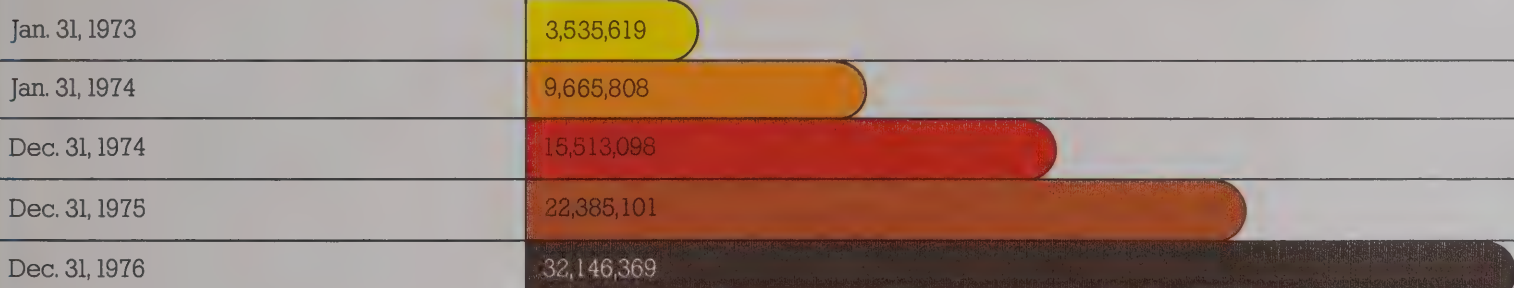
Year ended: Systemwide Sales (in dollars)



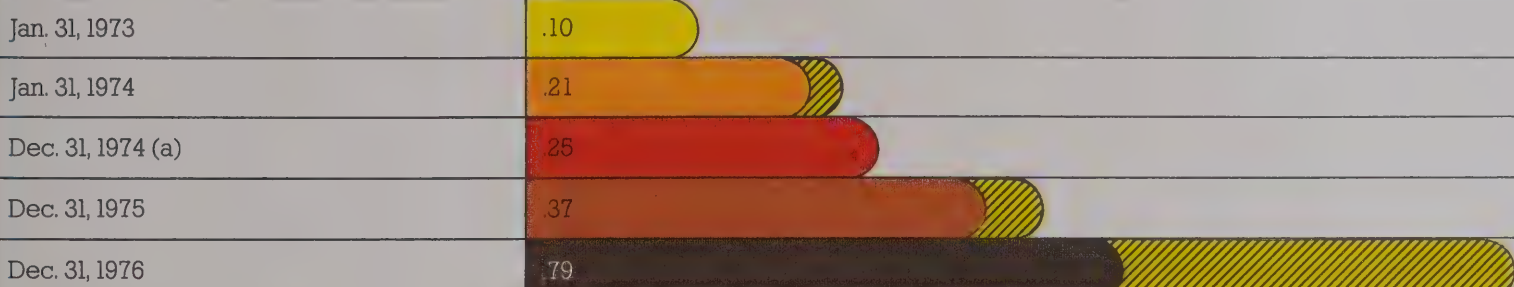
Year ended: Consolidated Revenues (in dollars)



As at: Total Assets (in dollars)



Year ended: Earnings per Share (in dollars)



(a) Eleven Months.

Indicates non-operating earnings for the years ended Jan 31, 1974, Dec 31, 1975 and Dec 31, 1976 of \$.02, \$.03 and \$.39 respectively.

Consolidated Balance Sheet

as at December 31, 1976

ASSETS

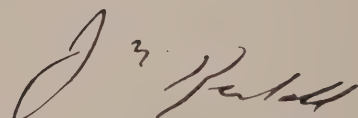
Current Assets

	1976	1975
Cash and short-term deposits	\$ 5,989,769	\$ 2,310,690
Accounts receivable (note 4)	2,537,120	1,101,893
Notes receivable (note 4)	917,964	385,119
Inventories (notes 4 and 5)	751,004	745,332
Containers (notes 2 and 4)	967,616	826,360
Prepaid expenses	479,110	385,780
	11,642,583	5,755,174
Containers (notes 2 and 4)	6,341,540	5,893,463
Due under employee share purchase plans (note 6)	814,975	748,681
Investment in shares of and advances to licensee companies (note 7)	2,793,545	942,761
Fixed assets (note 8)	5,154,184	3,896,407
Other assets (note 9)	2,347,124	2,119,299
Excess of cost of shares in subsidiary companies over book value of net assets acquired	3,052,418	3,029,316
	\$32,146,369	\$22,385,101

Signed on behalf of the board



Director



Director

POP SHOPPES INTERNATIONAL INC.
and Subsidiary Companies

LIABILITIES

Current Liabilities

	1976	1975
Bank advances (note 4)	\$ 1,882,692	\$ 1,418,368
Accounts payable and accrued liabilities	1,353,938	1,674,808
Income taxes	267,194	-
Dividends payable	246,873	32,160
Current portion of long-term debt	1,511,438	1,147,395

Refundable deposits on containers (note 2)

5,262,135 4,272,731

Long-term debt (note 10)

1,847,228 1,884,770

Deferred income taxes (note 2)

8,096,232 3,978,180

Minority interest in consolidated subsidiaries

2,958,452 1,881,774

420,667 -

\$18,584,714 \$12,017,455

SHAREHOLDERS' EQUITY

Capital stock (notes 11, 12, 13 and 19)

7,495,446 7,496,785

Retained earnings

6,066,209 2,870,861

13,561,655 10,367,646

\$32,146,369 \$22,385,101

Consolidated Statement of Earnings

for the year ended December 31, 1976

	1976	1975
Revenues		
Concentrate	\$ 1,980,704	\$ 1,036,296
Soft drink	12,432,632	12,264,676
License	1,512,637	436,433
Investment income	468,020	25,742
Gain on sale of investment in licensees	647,162	101,968
Share of net earnings of effectively controlled companies	30,200	43,000
	\$17,071,355	\$13,908,115
Income before the following	4,433,606	3,352,913
Depreciation	237,390	155,718
Amortization of deferred costs	386,348	238,086
Amortization of other assets	61,147	44,551
Interest on long-term debt	579,325	488,225
Other interest	258,689	234,828
	1,522,899	1,161,408
	2,910,707	2,191,505
Gain on sale of minority interest in subsidiary (net of tax of \$444,609)	1,711,633	-
Costs of disposal of inventory (net of tax of \$34,000)	(57,845)	-
	1,653,788	-
	4,564,495	2,191,505
Provision for income taxes (note 14)	1,001,439	868,161
Income before minority interest	3,563,056	1,323,344
Minority interest in subsidiaries	26,553	-
Income before extraordinary item	3,536,503	1,323,344
Reduction of current year's income taxes on application of losses in prior periods	-	97,000
Net earnings for the year	\$3,536,503	\$1,420,344
Earnings per share (note 15)		
Basic		
Earnings for the year before extraordinary item	.79	.34
Net earnings for the year	.79	.37
Fully Diluted		
Earnings for the year before extraordinary item	.75	.33
Net earnings for the year	.75	.36

Consolidated Statement of Retained Earnings

for the year ended December 31, 1976

	1976	1975
Balance - beginning of year	\$2,870,861	\$1,562,402
Net earnings for the year	3,536,503	1,420,344
	6,407,364	2,982,746
Dividends - preference shares	125,906	111,885
- common shares	215,249	-
	341,155	111,885
Balance - end of year	\$6,066,209	\$2,870,861

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1976

	1976	1975
Source of cash		
Provided from current operations	\$ 4,976,876	\$2,299,408
Reduction of current year's income taxes on application of losses in prior periods	—	97,000
Proceeds from issue of shares—		
Preference	(25,000)	1,500,000
Common	23,661	3,737,802
Cash acquired on acquisition of subsidiaries	12,916	27,695
Decrease in inventories	24,671	39,002
Reduction of employee share purchase plans	73,933	—
Reduction of advances	—	432,302
Proceeds from liquidation of investments	875,369	114,501
Increase in bank advances	236,324	—
Increase in refundable deposits on containers	—	322,972
Increase in debentures, mortgages, bank term loans and purchase agreements	5,849,097	1,024,948
	\$12,047,847	\$9,595,630
Use of cash		
Redemption of second preference shares	—	950,748
Dividends paid	126,442	111,885
Increase in accounts receivable	1,422,963	145,389
Increase in containers	395,013	1,248,275
Increase in prepaid expenses	87,472	238,007
Increase in employee share purchase plans	31,119	436,500
Increase in advances	2,646,966	—
Purchase of fixed assets—net	1,100,327	1,213,687
Additions to other assets	656,638	1,221,276
Excess cost of shares in subsidiary companies over book value of net assets acquired	39,869	464,648
Decrease in bank advances	—	288,840
Decrease in accounts payable	154,170	211,009
Decrease in short-term notes payable	—	630,720
Decrease in refundable deposits on containers	121,567	—
Repayment of debentures, mortgages, bank term loans and purchase agreements	1,586,222	721,354
	\$ 8,368,768	\$7,882,338
Increase in cash	3,679,079	1,713,292
Cash—beginning of year	2,310,690	597,398
Cash—end of year	\$ 5,989,769	\$2,310,690

Notes to Consolidated Financial Statements

for the year ended December 31, 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The purchase method of accounting for business acquisitions, all of which were share purchases and related to the soft drink industry, has been followed in the preparation of the consolidated financial statements, which include the assets, liabilities and earnings of all subsidiary companies.

The assets and liabilities and results of operations of United States subsidiaries are included on the basis of parity between Canadian and United States dollars.

It was the policy of the company not to amortize the excess costs of the investments in shares of subsidiaries over the fair value of net assets acquired, because, in the opinion of management, no decrease in value of this asset was, or is, expected. However, in accordance with generally accepted accounting principles excess costs incurred after March 31, 1974 are amortized on a straight-line basis by charges to income over the succeeding forty years.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis for raw materials and supplies, average cost for finished goods, and specific identification for equipment for resale.

Containers

Containers represent bottles and cases. Containers on hand, to the extent that they do not reflect excess quantities, are classified as current assets at their deposit value. The excess of cost over deposit value of such containers and the cost of containers in the hands of customers are classified as noncurrent assets. The excess of cost over deposit value of all containers is amortized by systematic charges to income at the rate of \$.03 per case sold which is considered sufficient to absorb cost, less customers' deposits, over the estimated useful lives of the containers.

Investment in shares of licensee companies

Effectively controlled licensees are accounted for on the equity method. Other investments included represent either non-voting or nominal voting equity interests accounted for on the cost method.

Fixed assets and depreciation

Fixed assets are stated at acquisition cost. Depreciation and amortization are provided for in the accounts using the straight-line method in amounts sufficient to amortize costs over the estimated useful lives of the assets at the following annual rates:

Buildings	2½%
Leasehold improvements	20%
Machinery and equipment	5%-20%
Mobile equipment	15%

Other Assets

DEFERRED COSTS

Costs identifiable with the company's program of opening and developing factory stores and wholesale outlets are amortized over 60 months. Promotional seminar costs are amortized over 12 months.

OTHER COSTS

Costs incurred in the development of advertising materials utilized in the company's national and local promotional campaigns are amortized over 60 months. Costs incurred in connection with obtaining long-term debt are amortized over the term of the respective borrowing.

Refundable deposits on containers

The refundable deposits on containers represent monies received as deposits net of returns at the prevailing deposit rate. Deposit rates since the commencement of operations are as follows:

Prior to May 1972	\$1.60
May 1972 to May 1974	\$2.00
May 1974 to date	\$3.00

Deferred income taxes

The company accounts for income taxes using the deferral method of tax allocation under which income taxes are provided in the year for those transactions affecting net income, regardless of when such items are recognized for tax purposes. Timing differences giving rise to deferred income taxes relate primarily to amortization of containers and other assets and depreciation of fixed assets, where the cumulative amounts claimed for tax purposes exceed the amounts deducted for accounting purposes.

2. CHANGES IN APPLICATION OF ACCOUNTING PRINCIPLES

(a) Containers

Containers previously included as current assets have been reclassified so that only the deposit value of containers on hand are included with current assets. The excess of unamortized cost over deposit value of containers on hand, and the unamortized cost of other containers, are classified as containers and shown as a separate caption below current assets. Customer deposits previously included as current liabilities have been reclassified and are now shown as a separate caption below current liabilities. Deferred income taxes of \$1,315,675 related to this change have also been reclassified and have been included with the long-term portion of deferred income taxes.

(b) Changes in financial position

Changes in financial position previously reported on the basis of working capital have been reported on the basis of cash.

3. ACQUISITION

On August 31, 1976, the company acquired all of the issued and outstanding shares of Futura Beverages Ltd., a PoP Shoppes licensee, for a cash consideration of \$160,084. The total cost was allocated to the net assets acquired on the basis of their fair value as follows:

Total assets	\$988,046
Total liabilities	827,962
	\$160,084

No goodwill arose from the acquisition.

The acquisition has been accounted for as a purchase and accordingly the consolidated statement of earnings includes the results of operations of Futura Beverages Ltd. from September 1, 1976 to October 31, 1976, its year-end.

4. SECURITY FOR BANK ADVANCES

Book debts, inventories and containers together with all the shares of certain subsidiaries have been pledged as security for bank advances.

5. INVENTORIES

	1976	1975
Raw materials	\$234,141	\$243,413
Finished goods	162,031	189,990
Supplies	310,660	288,341
Equipment for resale	44,172	23,588
	\$751,004	\$745,332

6. DUE UNDER EMPLOYEE SHARE PURCHASE PLANS

The company has share purchase plans for its senior officers and employees, certain of whom are shareholders and directors of the company. Under these plans \$843,003 has been advanced by way of loans without interest to enable the trustee to acquire common shares on behalf of members of the plans.

Amounts due under these plans are as follows:

1977	\$ 28,028
1978	145,216
1979	27,889
1980	34,152
1981	40,325
1982-1990	567,393
	\$843,003

7. INVESTMENT IN AND ADVANCES TO LICENSEE COMPANIES

	1976	1975
Investment in effectively controlled companies, at equity value	\$ -	\$103,044
Investment in other companies, at cost	411,667	386,139
Advances	2,381,878	453,578
	\$2,793,545	\$942,761

8. FIXED ASSETS

	Cost	Accumulated depreciation	Net Book Value	
			1976	1975
Land	\$ 952,211	\$ -	\$ 952,211	\$ 598,224
Buildings and leasehold improvements	1,879,710	221,299	1,658,411	1,247,335
Machinery and equipment	2,788,723	412,222	2,376,501	1,914,428
Mobile equipment	234,592	67,531	167,061	136,420
	\$5,855,236	\$701,052	\$5,154,184	\$3,896,407

Notes to Consolidated Financial Statements

for the year ended December 31, 1976

9. OTHER ASSETS

	Cost	Accumulated amortization	Unamortized balance	
			1976	1975
(a) Deferred costs				
Opening and development	\$2,122,274	\$569,203	\$1,553,071	\$1,526,061
Promotional seminars	59,242	38,465	20,777	98,254
	\$2,181,516	\$607,668	\$1,573,848	\$1,624,315
(b) Other costs				
Issue costs of 8½% first preference shares	\$ 94,905	\$ -	\$ 94,905	\$ 71,079
Advertising materials	483,243	84,702	398,541	219,380
Borrowing	72,007	16,046	55,961	65,325
Trademarks	191,172	7,694	183,478	125,660
Organization expense	40,505	114	40,391	13,540
	881,832	108,556	773,276	494,984
	\$3,063,348	\$716,224	\$2,347,124	\$2,119,299

10. LONG-TERM DEBT

	1976	1975
(a) The Company		
(i) 14¼% debenture due 1980	\$1,560,000	\$1,800,000
Secured by a fixed and floating charge on the property and assets of the company and certain of its subsidiaries and the guarantee of certain of the company's subsidiaries and its parent in the amount of \$1,500,000 each		
(ii) Demand term loans	640,000	-
Bank loans due 1977-1980 at the prime bank rate plus 1%. The bank loans are secured by investments		
(iii) 8% notes payable due 1976	-	21,900
(iv) Advances from parent company	250,705	250,670
	\$2,450,705	\$2,072,570
(b) Subsidiaries		
(i) 9½%-14½% debentures and mortgages due 1977-1988 secured by fixed and/or floating charges	1,515,554	1,302,221
(ii) Conditional sales agreements due 1977-1979	220,225	235,287
(iii) Demand term loans		
Bank loans due 1977-1980 at the prime bank rate plus 2-3%	1,198,860	1,105,247
The bank loans are secured by book debts, inventories and containers		
(iv) Notes payable due 1977-1984 varying from non-interest bearing to 10%	222,326	410,250
(v) 7% note payable to minority shareholder	4,000,000	-
	\$7,156,965	\$3,053,005
	9,607,670	5,125,575
Less: Current portion	1,511,438	1,147,395
	\$8,096,232	\$3,978,180

(c) Principal payments on long-term debt required during the next five years are as follows:

1977	\$1,511,438
1978	1,369,524
1979	1,162,282
1980	556,634
1981	234,730
	\$4,843,608

11. CAPITAL STOCK

(a) Authorized

99,000	first preference shares with a par value of \$25 each, issuable in series, of which 60,000 shares constitute the first series designated as 8½% cumulative redeemable convertible first preference shares series A
10,004,000	common shares without par value

(b) Issued

	1976	1975
59,000 8½% first preference shares series A	\$1,475,000	\$1,500,000
4,304,988 Common shares	6,020,446	5,996,785
	<u>\$7,495,446</u>	<u>\$7,496,785</u>

The 8½% first preference shares series A may be redeemed at the option of the company after July 15, 1978 and on or before July 15, 1979 at \$30 per share. The redemption price decreases by \$1 each year to July 15, 1983 and thereafter is par value.

(c) Changes in capital stock

	1976		1975	
	Number of Shares	Amount	Number of Shares	Amount
Preference Shares				
8½% first preference shares series A				
Balance—beginning of year	60,000	\$1,500,000	—	\$ —
Issued for cash	—	—	60,000	1,500,000
Converted to common shares	(1,000)	(25,000)	—	—
Balance—end of year	59,000	\$1,475,000	60,000	\$1,500,000
Common Shares				
Balance—beginning of year	4,299,488	5,996,785	3,400,378	2,258,983
Issued for cash	—	—	712,945	3,521,436
Issued under employee share purchase plan	500	3,150	98,000	436,500
Issued for conversion of 8½% first preference shares series A	5,000	25,000	—	—
Issued as consideration for purchase of subsidiary companies	—	—	32,664	163,320
Issued pursuant to anti-dilution agreement	—	—	55,501	—
	<u>4,304,988</u>	<u>6,024,935</u>	<u>4,299,488</u>	<u>6,380,239</u>
Less: Costs of issue	—	4,489	—	383,454
Balance—end of year	4,304,988	\$6,020,446	4,299,488	\$5,996,785

Notes to Consolidated Financial Statements

for the year ended December 31, 1976

12. STOCK OPTIONS AND OTHER RIGHTS

The company gave the \$2,000,000 debenture holder an option to purchase 169,286 common shares at a price of \$3.79 per share. This option is exercisable at any time until mid 1980.

The 8½% first preference shares series A are convertible up to July 15, 1980 on the basis of 5 common shares for each series A share and from July 15, 1980 to July 15, 1985 on the basis of 3 common shares for each series A share.

Under the employee share purchase plan, 5,573 common shares which have been set aside remain unissued.

13. RESTRICTION ON PAYMENT OF DIVIDENDS

The company has agreed not to make payments of dividends in any year in excess of 50% of its consolidated net earnings of the previous year without consent of the holder of the \$2,000,000 debenture.

The provisions attaching to the first preference shares series A of the company preclude declaring or paying dividends (other than certain stock dividends) on its outstanding common shares unless all dividends accumulated on the first preference shares have been paid or set apart for payment. Such provisions further provide that no dividends (other than certain stock dividends) may be declared on the common shares of the company except out of consolidated net earnings available for dividends earned subsequent to December 31, 1974 or out of the proceeds of any issue of shares by the company after August 12, 1975.

14. PROVISION FOR INCOME TAXES

	1976	1975
Current	\$ 267,194	\$ -
Deferred	1,212,854	868,161
	<u>\$1,480,048</u>	<u>\$868,161</u>

15. EARNINGS PER SHARE

- (a) Basic earnings per share have been calculated using the weighted average number of shares outstanding during the period.
- (b) Fully diluted earnings per share have been calculated after giving effect to the exercise of the outstanding stock options and other rights and conversions of the 8½% first preference shares series A. In this calculation, earnings after taxes of \$29,022 were imputed at the rate of 9% on the deemed proceeds on the exercise of the options.

16. COMPARATIVE FIGURES

Comparative figures for 1975 have been re-arranged in certain instances to conform to the current year's presentation.

17. COMMITMENTS AND CONTINGENT LIABILITIES

The Company has granted an option exercisable within the next two years, for the purchase from treasury of 30% of the issued share capital of PoP Shoppes of America, Inc. to the minority shareholder, Imasco Limited of Montreal. If the option is exercised, the sale price for these shares is to be \$7,000,000.

The Company and its subsidiaries have guaranteed debts in the amount of \$373,500 (1975-\$500,000) on behalf of licensee companies.

18. LONG-TERM LEASES

Minimum annual commitments under lease agreements are as follows:

1977	\$484,107
1978	\$460,276
1979	\$418,003
1980	\$399,353
1981	\$336,518

19. ANTI-INFLATION ACT

The company and its subsidiaries are subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975. In the opinion of management, the company has complied with the provisions of this Act.

Under the legislation the amount of dividends which the company can otherwise declare or pay during the period from December 31, 1976 to October 13, 1977 will be limited to approximately \$355,000.

20. STATUTORY INFORMATION

The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior officers (as defined by The Business Corporations Act, Ontario) amounted to \$320,905 (1975-\$267,934).

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of PoP Shoppes International Inc. as at December 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the changes in the classification of containers and customer deposits and in reporting for the changes in financial position as outlined in note 2 with which we concur, have been applied on a basis consistent with that of the preceding year.

Kitchener, Ontario
February 25, 1977

COOPERS & LYBRAND
Chartered Accountants

Five Year Financial Review

	1976	1975	1974 (a)	1974 (b)	1973 (b)
Revenues	\$17,071,355	13,908,115	8,837,703	5,028,726	1,243,256
Income from operations	\$2,910,707	2,191,505	1,493,688	1,014,187	253,837
Earnings before extraordinary items	\$3,536,503 (c)	1,323,344	840,405	585,815	96,981
-per share	\$.79	.34	.25	.19	.10
Net Earnings	\$3,536,503	1,420,344	840,405	645,966	96,981
-per share	\$.79	.37	.25	.21	.10
Cash flow per share	\$1.15	.60	.42	.29	.27
Shares outstanding (d)	4,302,904	3,523,823	3,361,620	3,049,278	1,012,500
Dividends—preference	\$125,906	\$111,885	—	—	—
—common	\$215,249	—	—	—	—
Total Assets	\$32,146,369	22,385,101	15,513,098	9,890,258	3,919,779
Shareholders' Equity	\$13,561,655	10,367,646	4,772,133	3,263,492	97,048
Book value per share (e)	\$3.15	2.41	1.40	1.02	.04

(a) Eleven months ended December 31, 1974

(b) Year ended January 31st.

(c) Includes gain of \$1,711,633 on the sale to Imasco of 20% of the equity of PoP Shoppes of America, Inc., which represents \$.39 per share.

(d) Weighted average of common shares outstanding during the year.

(e) Based on the common shares outstanding at the end of the year.

Directors and Officers

BOARD OF DIRECTORS

- *ALLAN R. BIGGS, C.A.
Vice-President, Finance & Treasurer
- F. MARTIN CRISPO
Vice-President and Treasurer
National Life Assurance Co. of Canada
- V. EDWARD DAUGHNEY, C.A.
President
Great Northern Financial Corporation
- *JEREMY N. KENDALL
President
Venturetek International Limited
- DONALD E. LOEB
Executive Vice-President & Secretary
Venturetek International Limited
- †J. GARY SHAW, C.A.
President
PoP Shoppes of America, Inc.
- †JACK M. TIPTON
Attorney at Law
Wild, Carter, Hamlin, Martin, Tipton &
Quaschnick
Fresno, California
- *BRUCE M. WESTWOOD
President and Chief Executive Officer
PoP Shoppes International Inc.

(*Members of the Executive Committee)

(†Members of the Audit Committee)

POP SHOPPES INTERNATIONAL INC.

Executive Officers

JEREMY N. KENDALL
Chairman of the Board
BRUCE M. WESTWOOD
President and Chief Executive Officer
ALLAN R. BIGGS
Vice-President, Finance and Treasurer
DONALD E. LOEB
Secretary
EDWARD M. YEATS
Assistant Treasurer and Controller

PRINCIPAL SUBSIDIARIES

PoP Shoppes of Canada Limited

BRUCE M. WESTWOOD
Chairman of the Board
WILLIAM W. HOOD
President
ALFRED W. NICHOLLS
Vice-President, Finance
JAMES R. JACKSON
Vice-President, Technical Services
DENIS E. DENOMME
Vice-President, Operations
WILLIAM Y. MAY
Vice-President, Marketing
ALLAN R. BIGGS
Secretary

PoP Shoppes of America, Inc.

BRUCE M. WESTWOOD
Chairman of the Board
J. GARY SHAW
President
ANDREW A. McINTYRE
Executive Vice-President and
General Manager
JAMES M. STROHAN
Secretary and Treasurer
CHRIS W.E. HOVEY
Vice-President, Licensee Operations
E. JOHN ZAVITZ
Vice-President, Corporate Operations
WILLIAM S. MacKENZIE
Vice-President, Marketing
DALE V. LUECK
Vice-President, Technical Services

Kist Canada, Limited

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Chairman of the Board
MARK J. SEGUIN
President and General Manager
LEWIS E. OAKLEY
Executive Vice-President
JAMES R. JACKSON
Vice-President
EDWARD M. YEATS
Treasurer
ALLAN R. BIGGS
Secretary

INVESTMENT BANKERS

Merrill Lynch, Royal Securities Limited

AUDITORS

Coopers & Lybrand

SOLICITORS

Goodman & Goodman-Toronto
Shepherd, McKenzie, Plaxton, Little
& Jenkins-London
Holland & Hart-Denver

PRINCIPAL BANKERS

The Royal Bank of Canada
Toronto-Dominion Bank
First National Bank of Denver
The Mitsubishi Bank of California

TRANSFER AGENT AND REGISTRAR

Canada Permanent Trust Company

STOCK LISTINGS

Toronto and Montreal Stock Exchanges

PoP Shoppes International Inc.

146 Yorkville Avenue
York Square, Toronto M5R 1C3



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